

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> Substance Abuse Foundation of Long Beach, Inc. ("SAF") Long Beach, California Los Angeles County	<b>Amount Requested:</b> \$400,000 <b>Requested Loan Term:</b> 15 years <b>Date Requested:</b> January 30, 2003 <b>Resolution Number:</b> HII-135
<b>Project Site:</b> 3125 and 2825 East Seventh Street, Long Beach, California	
<b>Facility Type:</b> Adult residential alcohol and/or drug abuse/recovery or treatment facility	
<b>Use of Loan Proceeds:</b> Loan proceeds will be used to refinance three existing loans. This refinancing will save SAF approximately \$14,000 per year in comparison to the current loan payments.	
<b>Type of Issue:</b> HELP II Loan	
<b>Prior HELP II Borrower:</b> No	
<b>Financial Overview:</b> SAF's financial position is stable with consistent profitability over our review period. Further aiding stability is SAF's strong market presence in the Long Beach area. Although heavily leveraged, SAF has a stable debt service coverage ratio.	
<b>Sources of Revenue:</b> (FYE 6-30-02)	<u>Amount</u> <u>Percent</u>
Government grants	\$3,116,231                      92.2%
Service fees	227,874                      6.7%
Miscellaneous	12,157                      0.4%
Contributions	<u>22,430</u> <u>0.7%</u>
Total revenue and support	<u>\$3,378,692</u> <u>100.0%</u>
<b><u>Estimated Sources of Funds:</u></b>	<b><u>Estimated Uses of Funds:</u></b>
HELP II loan	\$400,000
Borrower's funds	<u>41,000</u>
Total Sources	<u>\$441,000</u>
	Refinance existing loans
	\$434,000
	Financing costs
	<u>7,000</u>
	Total Uses
	<u>\$441,000</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.	
<b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Substance Abuse Foundation of Long Beach, Inc., subject to a final appraised value on the Long Beach properties satisfactory to the Authority; submission of 2002 audited financial statements materially consistent with the 2002 unaudited financials presented in this summary, and the standard HELP II loan provisions.	

**STAFF SUMMARY AND RECOMMENDATION**

**Substance Abuse Foundation of Long Beach, Inc.**

**January 30, 2003**

**Resolution Number: HII-135**

**I. PURPOSE OF FINANCING:** SAF seeks to refinance three existing loans on two properties located in Long Beach. This refinancing will result in an overall savings of approximately \$14,000 per year which will improve SAF's operating cash flow and build equity in the properties.

In addition to the HELP II loan, SAF has applied for a HealthCAP loan. The HealthCAP loan, if obtained, will be used to purchase a new facility, refinance other existing debt and purchase equipment.

***Refinance existing loans on two properties* .....\$434,000**

Loan proceeds will be used to refinance three existing loans on two properties. The first property located at 3125 East 7<sup>th</sup> Street was purchased in April 1988 for \$258,500. Currently, this property has two loans outstanding with interest rates of 12.5% and 11%, with approximate loan balances of \$175,000 and \$53,000, respectively. The property is a mixed-used structure that encompasses approximately 3,800 square feet. It houses a drug and alcohol treatment complex at the front of the lot which includes a certified Drug/Medical outpatient clinic. The treatment complex includes a reception room, a large group counseling and education room; a small group counseling room, four private counseling/treatment offices and restroom facilities. In addition, there is a private and secure urine-testing area as well as a medical records/reception area.

At the rear of the lot, SAF maintains a 24-hour residential treatment facility. This structure is handicapped accessible and includes two large private bedrooms with built-in closets and storage areas. The building also includes a community kitchen and dining room that feeds the clients three meals and nutritious snacks daily. Also included is a large storage garage and two parking spaces at the rear of the lot. According to management, the value of the property is estimated at \$600,000.

The second property, located at 2825 East 7<sup>th</sup> Street was purchased in June 1996 for \$220,000. The interest rate on this note is 8.5% and the loan balance is approximately \$207,000. This two-story 3,500 square feet facility serves as a transitional housing facility where homeless and indigent clients reside while participating in the nearby treatment center. Each resident must complete at least 90 days of treatment and continue to access supportive recovery and

needed rehabilitation services while residing in the building. The facility has 12 one-bedroom apartments and each apartment has a private kitchen, dining area, living room and bathroom. All units are fully furnished and equipped. According to management, the value of the property is estimated at \$485,000.

SAF is in the process of having both properties property appraised. The combined appraised value on the properties must be satisfactory to the Authority's policies of a loan to value ratio that does not exceed 95%.

<b>Financing Costs</b> .....	<b><u>7,000</u></b>
Authority Fee .....	\$5,000
Title/escrow fees .....	2,000
<b>Total</b> .....	<b><u>\$441,000</u></b>

**Financing structure:**

- 15-year fully amortized loan term in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,144).
- Total interest payments of approximately \$92,219.
- First position liens on the properties located at 3125 and 2825 East Seventh Street, Long Beach, California.
- Second position lien on corporate gross revenue pledge. (Subordinate to a prior loan with National Cooperative Bank Development Corporation).
- Maximum loan to value ratio of 95%.

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## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Substance Abuse Foundation of Long Beach, Inc. Statement of Activities Unrestricted

	Five Months Period Ended	For the Year Ended June 30,		
	November 2002 (Unaudited)	2002 (Unaudited)	2001	2000
<b>REVENUE AND SUPPORT</b>				
Government grants	\$ 1,387,933	\$ 3,116,231	\$ 2,584,454	\$ 2,174,402
Service fees	120,838	227,874	243,369	290,985
Miscellaneous	6,168	12,157	7,832	23,787
Contributions	42,383	22,430	19,983	27,906
Net assets released from restrictions	-	-	3,165	3,112
Total revenue and support	<u>1,557,322</u>	<u>3,378,692</u>	<u>2,858,803</u>	<u>2,520,192</u>
<b>EXPENSES</b>				
Salaries, wages and stipends	828,837	1,619,825	1,245,292	1,266,657
Payroll taxes	58,511	133,054	103,929	105,589
Employee benefits	21,718	98,574	131,094	75,408
Accounting and legal	15,873	48,751	37,216	19,481
Advertising and promotion	7,585	55,878	-	-
Books and publications	8,636	13,288	4,400	3,828
Client activities	469	2,998	7,589	10,813
Consulting	40,283	101,845	67,499	11,447
Depreciation and amortization	42,800	94,006	81,631	75,541
Education and seminars	4,931	12,132	7,742	7,990
Food	77,138	178,032	157,422	156,295
Insurance	115,644	129,625	52,640	42,012
Interest	99,789	242,163	251,609	238,956
Medical costs	11,125	23,236	22,873	22,101
Miscellaneous	30,972	7,388	21,148	6,943
Office expense	34,509	69,446	68,126	59,600
Repairs and maintenance	39,314	66,844	64,539	103,165
Residential supplies	19,718	40,025	38,884	49,137
Rent - houses	10,375	24,900	24,900	26,800
Rent - offices	5,000	11,200	10,800	10,800
Taxes, licenses and fees	9,537	17,143	25,179	18,944
Telephone	28,462	47,350	39,914	41,842
Transportation	12,340	19,540	26,365	34,474
Utilities	51,785	109,564	138,642	115,871
Total expenses	<u>1,575,351</u>	<u>3,166,807</u>	<u>2,629,433</u>	<u>2,503,694</u>
<b>Increase in net assets</b>	<b>(18,029)</b>	<b>211,885</b>	<b>229,370</b>	<b>16,498</b>
Unrestricted net assets, beginning of year	<u>828,102</u>	<u>616,217</u>	<u>386,847</u>	<u>370,349</u>
Unrestricted net assets, end of year	<u>\$ 810,073</u>	<u>\$ 828,102</u>	<u>\$ 616,217</u>	<u>\$ 386,847</u>

**Substance Abuse Foundation of Long Beach, Inc.**  
**Balance Sheet**

	As of	As of June 30,		
	November 30,	2002	2001	2000
	2002	2002	2001	2000
	(Unaudited)	(Unaudited)		
<b>ASSETS</b>				
Cash	\$ 2,958	\$ 251,058	\$ 72,512	\$ 88,301
Accounts receivable	631,791	468,174	442,322	243,927
Prepaid expenses	1,802	1,802	27,117	31,921
Property and equipment	3,448,356	3,300,749	3,118,734	3,108,430
Unamortized loan fees	8,059	8,662	10,109	11,556
Total Assets	<u>\$ 4,092,966</u>	<u>\$ 4,030,445</u>	<u>\$ 3,670,794</u>	<u>\$ 3,484,135</u>
<b>LIABILITIES AND NET ASSETS</b>				
Liabilities				
Accounts payable	\$ 231,109	\$ 141,968	\$ 89,069	\$ 74,761
Payroll taxes payable	263	263	-	17,052
Accrued expenses	-	-	51,579	-
Security deposits	300	300	300	482
Loans from officers	-	-	121,954	133,954
Accrued interest - officers	-	-	61,365	66,397
Notes payable	3,044,537	3,053,128	2,723,626	2,794,793
Total liabilities	<u>3,276,209</u>	<u>3,195,659</u>	<u>3,047,893</u>	<u>3,087,439</u>
Net assets				
Unrestricted	810,073	828,102	616,217	386,847
Temporarily restricted	6,684	6,684	6,684	9,849
Total net assets	<u>816,757</u>	<u>834,786</u>	<u>622,901</u>	<u>396,696</u>
<b>Total liabilities and net assets</b>	<u>\$ 4,092,966</u>	<u>\$ 4,030,445</u>	<u>\$ 3,670,794</u>	<u>\$ 3,484,135</u>

**Financial Ratios:**

	<b>Proforma (1)</b>			
	<b>FYE 2002</b>			
Debt Service Coverage (x)	1.93	1.84	1.73	1.12
Debt/Unrestricted Net Assets (x)	4.17	3.69	4.42	7.22
Margin (%)		7.14%	8.02%	.65%
Current Ratio (x)		5.06	3.85	3.95

(1) Recalculates June 2002 unaudited results to include the impact of this financing.

**Financial Discussion:**

**SAF's financial position is stable with consistent profitability over our review period. Further aiding stability is SAF's strong market presence in the Long Beach area.**

SAF's financial position is stable with consistent profitability supported by a strong demand for its services. Since fiscal 2000, SAF's total revenues have increased over 34% primarily as a result of increased government contracts. Further, as a result of Proposition 36 and the California Department of Correction's Parolee Registration Participation Program, SAF experienced a steady increase in clients. In May 2002, SAF bought a building and used its cash to renovate the building. The renovation will be completed in February 2003 and is expected to generate additional income for SAF.

**Although heavily leveraged, SAF has a stable debt service coverage ratio.**

SAF's balance sheet is stable with significant net assets. SAF's fixed assets continue to grow as well as its long-term debt as SAF acquires additional properties. Its debt-to-unrestricted net assets ratio is heavily leveraged at 4.17x. With the proposed HELP II loan financing, proforma debt service coverage ratio will remain an adequate 1.93x, indicating SAF's ability to meet future debt service payments.

In addition, proforma debt service coverage ratio that includes the HealthCAP loan will be 1.49x which indicates that SAF has the ability to meet the additional debt service payments.

Although the organization is heavily leveraged, the balance sheet is otherwise strong with net assets more than doubling over the 3-year review period.

SAF's interim cash position is approximately \$2,900 as funds were used to renovate an existing facility located on Pacific Avenue in Long Beach. An additional \$38,000 will be required to complete the HELP II loan transaction. As of January 23, 2003, management indicates that funds in the amount of \$145,000 are in place as a result of collections of accounts receivable.

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**III. UTILIZATION STATISTICS:**

**Substance Abuse Foundation of Long Beach, Inc.  
Clients Served**

<u>Type of Service</u>	<b>5 Months</b>	<b>Fiscal year ending June 30,</b>		
	<b>Ended Nov. 30</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Residential Substance Abuse Treatment	610	1,420	1,248	1,072
Outpatient and Medi-Cal Treatment Services	508	1,200	848	784
Substance Abuse Day Treatment	72	84	74	72
Services-Enriched Supportive Housing	105	228	182	120
<b>Totals</b>	<b>1,295</b>	<b>2,932</b>	<b>2,352</b>	<b>2,048</b>

**IV. ORGANIZATION:**

**Background:** SAF was incorporated in November 1988 as a non-profit organization. It is the largest provider of residential and outpatient abuse and alcohol treatment recovery service in the Long Beach/South Bay area. Over the past 14 years, it has grown from a 6-bed residential treatment program with a small outpatient component, to a large 225-bed residential treatment and rehabilitation agency with 92 licensed treatment beds and outpatient services including drug/medical services that provide treatment for over 150 clients daily. Currently, SAF operates one facility over 14 property sites.

The mission of SAF is to provide excellent community-based drug/alcohol treatment services and service-enriched transitional housing for people who wish to recover from substance abuse, rebuild their lives and remain drug-free and self-sufficient within the community. The emphasis is serving the homeless, indigent and special needs populations who are typically the most underserved in the community including those with HIV/AIDS, mental health diagnoses, pregnant and parenting female addicts, dual and multi diagnosed, those with criminal justice backgrounds, public benefits recipients and homeless veterans.

**Licenses:** SAF is licensed as an adult residential alcohol and/or drug abuse/recovery or treatment facility with the Department of Alcohol and Drug Programs.

**Competition:** SAF provides 92 licensed treatment beds and maintains a 37% market share in Long Beach. SAF also has an additional 133 beds of services enriched housing for the homeless as well as extensive outpatient treatment and rehabilitation services which makes it the largest provider of comprehensive treatment and supportive services for disadvantaged people in the Long Beach metropolitan area. Also, SAF is the principal provider in the community of comprehensive

substance abused treatment, rehabilitation and supportive hours for economically disadvantage men and women who are dual-diagnosed with substance abuse and mental illness and those with HIV/AIDS who have a problem with addiction.

<b>Health Facility Location</b>	<b>Licensed Beds</b>	<b>Market Share (%)</b>	<b>Estimated Distance Away</b>
Redgate Memorial Hospital (Long Beach) affiliated with Behavior Health Services in Gardena, CA	43 and (20 detox)	25%	3.4 miles
National Council on Alcoholism	0	0%	3.6 miles
Tarzana Treatment Center	84	33%	3.8 miles
Southern California Alcohol and Drug Programs	12	5%	4.2 miles
Substance Abuse Foundation of Long Beach, Inc.	92	37%	N/A

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**V. OUTSTANDING DEBT:**

<b>Description</b>	<b>Original Amount</b>	<b>Amount Outstanding As of 6/30/02 (unaudited)</b>	<b>Estimated Amount Outstanding After Proposed Financing</b>
<b>Existing:</b>			
Note payable			
Gyler Family Trust, 1995	\$200,000	\$175,000	\$-0-
Mortgage payable			
California National Bank, 1994	310,000	273,781	273,781
Mortgage payable			
First Nationwide Bank, 1993	238,500	210,393	210,393
Note payable			
City of Long Beach 1994	68,292	36,212	36,212
Mortgage payable			
Washington Mutual Bank, 1994	215,000	183,595	183,595
Mortgage payable			
Robert A. Lockshire Trust, 1994	208,000	185,547	185,547
Note payable			
McConnel Family Trust, 1996	180,000	169,498	169,498
Note payable			
Quaker City Bank, 1996	220,000	207,510	-0-
Note payable			
Charles E. & Betty J McConnel 1988	53,000	53,000	-0-
Mortgage payable			
Wilshire Credit Corp. 1998	764,000	734,128	734,128
Mortgage payable			
Fidelity Federal Bank, 1998	233,806	214,751	214,751
Note payable			
Marie Ramage Trust, 2000	123,241	93,137	93,137
Note payable			
Francisco Urbina and Maurice Urbina, 2000	97,759	87,930	87,930
Note payable			
Francisco Urbina and Maurice Urbina, 2000	20,000	17,981	17,981
Note payable			
McConnel Family Trust, 2000	20,000	20,000	20,000
Note payable			
NCB Development Corp., 2002	191,500	191,500	191,500
Note payable			
Farmers & Merchants Bank, 2001	189,806	189,647	189,647
<b>Proposed:</b>			
CHFFA HELP II Loan, 2003		N/A	<b>400,000</b>
<b>TOTAL DEBT</b>		<b>\$3,043,610</b>	<b>\$3,008,100*</b>

\*SAF applied for a HealthCAP loan in the amount of \$1,356,000. This loan will refinance \$400,000 in existing debt with the remaining balance to be used to purchase and renovate a new facility and purchase equipment.

**VI. SECTION 15438.5 OF THE ACT:**

Annual savings of approximately \$14,000 per year resulting from the proposed refinancing will assist SAF to provide shelter and direct services for homeless addicts and alcoholics in the community.

**VII. LEGAL REVIEW:**

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

**VIII. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Substance Abuse Foundation of Long Beach, Inc., subject to a final appraised value on the Long Beach properties satisfactory to the Authority; submission of 2002 audited financial statements materially consistent with the 2002 unaudited financials presented in this summary, and the standard HELP II loan provisions.